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Endowment Fund Annual Report June 30, 2007

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ENDOWMENT FUND ANNUAL REPORT

JUNE 30, 2007



ANNUAL ENDOWMENT REPORT

University of Maine System Endowment

The Endowment funds of the University of Maine System are subject to the restrictions of gift instruments requiring that the principal be invested and current expenditures be funded from related income and appreciation.

Management

The following persons meet quarterly to provide oversight of the Endowment and to make portfolio management and investment management decisions for the fund:

- Board of Trustees Investment Committee
- Investment Consultant – New England Pension Consultants – Cambridge, MA
- Joanne Yestranski, - CFO & Treasurer, UMS
- Tracy Elliott – Director of Finance & Controller, UMS
- Peter Small – Institutional Research Analyst, UMS

Governing Policy

A formal investment policy governs the Endowment Investment Process. The Investment Policy details:

- Total return and risk objectives
- Spending policy
- Permitted and excluded investments
- Asset allocation guidelines with defined targets and permissible ranges
- Evaluation benchmarks by asset class and for the portfolio as a whole
- Risk and diversification requirements by asset class
- Use of derivatives
- Performance standards and evaluation
- Responsibilities of all parties concerned

The Investment Policy established by the Investment Committee targets a long run minimum return objective of 9.0%. The spending policy for FY07 has been set at **5.0%**.

FY 2007 Performance

The Endowment did well in FY07, with a net of fees return of 16.5%, **ranking in the 45th percentile of all Endowment funds**. The plan assets totaled \$122.9 million, an increase of \$15.1 million over the prior year-end figure.

The plan's 5-year annualized return of 12.0% ranks in the top 17% of all funds, while the risk taken by the fund in the 5-year period was in the bottom 20% of all Endowment funds. This return compares to an S&P 500 return of 10.7% and a Lehman Brothers Aggregate return of 4.5% over the 5-year period.

Diversification

The Endowment fund is well diversified by style and asset class, as well as geographically. The fund is diversified amongst 8 different asset classes and is managed by 13 different investment managers. The large size of the fund permits fuller diversification (which enhances risk adjusted returns) as well as access to attractive asset classes/managers. Additionally, larger investments benefit from reduced investment manager, consultant and custodial fees.

As of June 30, 2007, about 43% (\$53.3 million) of the fund was invested in **Domestic Equities**, which is further segmented into Passively Managed, Large Cap, and Small/MidCap investment categories. Within the Large Cap and Small/MidCap categories, the investments are further diversified into growth and value styles.

Roughly 20% (\$24.8 million) of the fund is invested in **international developed and emerging market stocks**, to provide diversification benefits and to pursue attractive equity investments worldwide.

Approximately 20% (\$23.6 million) of the assets were invested in **fixed income** strategies with 15% in a Global Multi-Strategy Bond fund (invests in the most attractive fixed income sectors worldwide), 4% in High-Yield bonds (tactical position to benefit from current high yields), and almost 1% in cash.

About 17% (\$21.3 million) of the fund was invested in **alternative strategies**, with 6% in Market Neutral investments (to improve stability of return), 8% in a Global Absolute Return strategy (which seeks to invest in those asset classes worldwide which offer the best relative value), and 3% in Timber (which provides greater diversification as historically timberland has been negatively correlated with traditional assets).

The following endowment fund information is provided for fiscal year ending June 30, 2007 and includes information for the UMS and amounts held for affiliated organizations.

	(Unaudited) (000's)
	<hr/>
Total Endowment at Market Value - June 30, 2007	<u>\$122,844</u>
Total Endowment at Market Value - June 30, 2006	<u>\$107,820</u>

The FY07 increase of **\$15,024** is comprised of:

Inflows:

Gifts (UMS and UMS affiliated organizations)	\$2,964
Return to Principal	162
Charitable Gift Annuities (Net of Annuitant Payments)	(44)
Transfers	21
Investment Returns:	
Income	6,435
Net Appreciation	11,360
Fees/Expenses	<u>(754)</u>
	<u>20,144</u>

Outflows:

5.00% Spending for Scholarships & Operations	(4,831)
Endowment Forwarded to Foundations Donors' Request	<u>(289)</u>
	<u>(5,120)</u>

Net Inflows and Outflows: 15,024

Attachment I reports the total returns for the Pooled Endowment fund on a net of fees basis and the fund's growth for the past 5 years, as well as the asset allocation for the fiscal years ended June 30, 2006 and 2007.

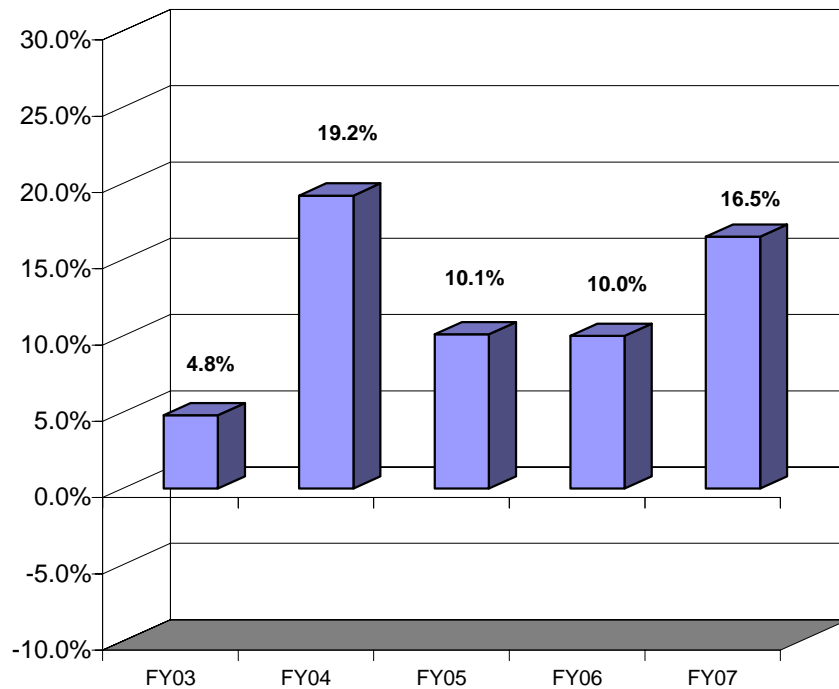
**UNIVERSITY OF MAINE SYSTEM
POOLED ENDOWMENT FUND
AS OF JUNE 30, 2007**

This attachment presents the University of Maine System's Pooled Endowment Fund asset allocation for fiscal years ended June 30, 2006 and 2007, total return figures net of fees, and growth of the Endowment since FY03.

Market Value and Allocation of Pooled Endowment (000's)

	June 30, 2006		June 30, 2007	
Domestic Equities	\$ 44,215	41%	\$ 53,283	43%
Int'l Equities	17,577	16%	24,756	20%
Multi Strategy Bond	17,120	16%	18,222	15%
High Yield Bond	4,217	4%	4,352	4%
Market Neutral	7,941	7%	7,253	6%
Global Absol. Return	8,626	8%	9,915	8%
Timber	3,745	4%	4,145	3%
Cash	4,379	4%	918	1%
Total	\$ 107,820	100%	\$ 122,844	100%

Endowment Fund Total Returns (Net of Fees)



Endowment Fund Market Values (\$ in millions)

